

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 AID-05 CIAE-00 EB-12 FRB-03

INR-11 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SP-03

CIEP-03 LAB-06 SIL-01 OMB-01 NSC-07 SS-20 STR-08

CEA-02 L-03 H-03 PA-04 PRS-01 USIA-15 FEAE-00 SCI-06

INT-08 AGR-20 DRC-01 /200 W
----- 002350

R 041813Z OCT 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 4516

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

UNCLAS SECTION 01 OF 03 LONDON 13013

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING OCTOBER 4

BEGIN SUMMARY: UK OFFICIAL RESERVES INCREASED DURING SEPT-
EMBER BY 141 MILLION POUNDS (\$328.5 MILLION AT \$2.33) TO

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3,074 MILLION POUNDS (\$7,162). THE TERMS OF TRADE IMPROV-

ED FOR THE THIRD CONSECUTIVE MONTH DUE TO A FALL IN THE AVERAGE PRICE OF IMPORTS (THE FIRST DECREASE SINCE THIRD QUARTER 1971) AND A CONTINUED INCREASE IN THE PRICE OF EXPORTS. THE BANK OF ENGLAND ANNOUNCED SUPPLEMENTARY REGULATION TO THE EXCHANGE CONTROL ACT WHICH REQUIRES GREATER DETAILED DISCLOSURE ON APPLICATION FOR PERMISSION TO MAKE ADVANCE PAYMENTS FOR UK IMPORTS. STERLING REMAINED RELATIVELY STABLE IN MODERATE TRADING WITH SOME WEAKENING ON THURSDAY (OCT. 3), CLOSING AT \$2.3270. ON A TRADE-WEIGHTED BASIS, THE POUND WAS RECORDED AT A DEPRECIATED LEVEL OF 17.7 PERCENT (SINCE SMITHSONIAN) FRIDAY, SEPTEMBER 27 THROUGH WEDNESDAY (OCT. 2), BUT WIDENED TO 18.0 PERCENT ON THURSDAY (OCT. 3). GOLD PRICES WERE SOMEWHAT VOLATILE DURING THE WEEK CLOSING AT \$156.00 ON THURSDAY (OCT. 3) UP \$11.25 FROM LAST THURSDAY'S CLOSE. ON THE DOMESTIC ECONOMIC SCENE, THE MAIN NEWS OCCURRED IN INDUSTRIAL RELATIONS WHERE THE "SOCIAL COMPACT," THE LABOUR PARTY'S METHOD OF ACHIEVING WAGE RESTRAINT APPEARS CLEARLY BREACHED BY AN OFFER BY FORD TO ITS STRIKING WORKERS. AT ALMOST THE SAME TIME, THE COAL MINERS UNION REJECTED A PRODUCTIVITY LINKED PAY PLAN. EVIDENCE CONTINUED TO MOUNT OF WEAKER DEMAND AND MOUNTING UNEMPLOYMENT PROSPECTS AND OF A CONTINUED SQUEEZE ON COMPANY LIQUIDITY. END SUMMARY

I. INTERNATIONAL

1. DURING SEPTEMBER, UK OFFICIAL RESERVES INCREASED BY 141 MILLION POUNDS (\$328.5 MILLION AT \$2.33) TO A LEVEL OF 3,074 MILLION POUNDS (\$7,162). THE INCREASE RESULTED FROM A FURTHER INFLOW OF OIL PRODUCERS' FUNDS COMBINED WITH OVERSEAS BORROWING BY THE UK PUBLIC SECTOR AMOUNTING TO \$308 MILLION EQUIVALENT. THUS, THE BALANCE OF PAYMENTS DEFICIT WAS AGAIN FINANCED WITHOUT DRAWING UPON EITHER THE \$2,500 MILLION EURODOLLAR LOAN OR THE \$1,200 MILLION IRANIAN LOAN COMMITMENT ANNOUNCED IN THE JULY BUDGET.

2. PROVISIONAL IMPORT AND EXPORT UNIT VALUE INDICES RELEASED THURSDAY (OCT. 3) SHOW A FALL IN THE AVERAGE PRICE OF UK IMPORTS IN AUGUST, THE FIRST DECREASE IN AVERAGE IMPORT UNIT VALUE SINCE THIRD QUARTER 1971. COMBINED WITH A CONTINUED RISE IN EXPORT PRICES, THE TERMS OF TRADE IM-

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PROVED 2.4 POINTS OVER JULY TO 79.1 (1970 EQUALS 100). THIS MARKS THE THIRD CONSECUTIVE MONTH THAT THE TERMS OF TRADE--THE RATIO OF AVERAGE EXPORT PRICES TO AVERAGE IMPORT PRICES--HAS SHOWN IMPROVEMENT. IMPORT AND EXPORT UNIT VALUE (1970 EQUALS 100)

	IMPORTS	EXPORTS	TERMS OF TRADE
1971	104.3	105.6	101.2

1972	109.2	111.0	101.7
1973	139.1	125.5	90.3
1974 1STQ	189.6	146.0	77.0
2NDQ	213.3	160.5	75.2
JUNE	217.4	164.7	75.7
JULY	218.2	167.4	76.7
AUGUST	216.5	171.3	79.1

3. STERLING REMAINED RELATIVELY STABLE DURING THE WEEK, EXHIBITING ONLY SLIGHT MOVEMENT AROUND LAST FRIDAY'S (SEPT 27) CLOSING RATE OF \$2.3335, BUT SHOWED SOME WEAKENING THURSDAY (OCT. 3), CLOSING AT \$2.3270. ON A TRADE WEIGHT-ED BASIS, THE POUND WAS RECORDED AT A DEPRECIATED LEVEL (SINCE SMITHSONIAN) OF 17.7 PERCENT THROUGH WEDNESDAY (OCT 2) AND REFLECTED THE WEAKENING ON THURSDAY BY WIDENING TO

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CEA-02 L-03 H-03 PA-04 PRS-01 USIA-15 FEAE-00 SCI-06

INT-08 AGR-20 DRC-01 /200 W
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R 041813Z OCT 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 4517

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

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18.0 PERCENT, DUE CHIEFLY TO FURTHER RELATIVE APPRECIATION
OF THE GERMAN MARK. GOLD PRICES WERE VOLATILE RISING FROM
\$146.25 ON FRIDAY (SEPT. 27) TO \$157.00 ON TUESDAY (OCT. '

1) AND CLOSING THURSDAY (OCT. 3) AT \$156.00, UP \$11.25
FROM LAST THURSDAY'S CLOSE.

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4. THE BANK OF ENGLAND ANNOUNCED SUPPLEMENTARY REGULATIONS
TO THE EXCHANGE CONTROL ACT. THE NEW REGULATIONS REQUIRE
GREATER DETAILS IN APPLICATIONS SUBMITTED BY IMPORT FIRMS
SEEKING PERMISSION TO MAKE ADVANCE PAYMENT FOR GOODS IM-
PORTED INTO THE UK. UNDER THE EXCHANGE CONTROL ACT, AD-
VANCE PAYMENT FOR IMPORTED GOODS IS NORMALLY NOT ALLOWED
EXCEPT SOME CONSIDERATION IS GIVEN FOR THE IMPORT OF CER-
TAIN RAW MATERIALS AND CAPITAL GOODS. SEE LONDON 12869
FOR DETAILS.

II. DOMESTIC ECONOMY

5. THE "SOCIAL COMPACT" WAS APPARENTLY BREACHED BY A TWO-
YEAR 38 PERCENT PAY OFFER FROM FORD MOTOR COMPANY TO ITS
STRIKING MANUAL WORKERS. THIS WOULD GIVE FORD WORKERS A
30 PERCENT RISE IN PAY THIS YEAR (THEY NEGOTIATED A CON-
TRACT IN THE SPRING), CLEARLY IN EXCESS OF THE RISE IN THE
COST OF LIVING. WHETHER THIS WILL HAVE IMPACT ON THE
LABOUR PARTY PROSPECTS IN NEXT WEEK'S ELECTION IS NOT
CLEAR. THE "SOCIAL COMPACT" IS A CENTRAL PLANK IN THE
LABOUR PLATFORM.

6. THE COAL MINERS UNION EXECUTIVE BOARD REJECTED THE COAL
BOARD'S PROPOSAL INCENTIVE PAY SCHEME, UNDER WHICH IT HAD
BEEN HOPED TO LINK WAGE SCALES TO PRODUCTIVITY. AS COAL
STOCKS ARE UNUSUALLY LOW, THIS MAY BODE ILL FOR THE COMING
WINTER.

7. A PRIVATE RESEARCH ORGANIZATION FORECAST A SHARP RISE
IN UNEMPLOYMENT IN THE NEXT 3 MONTHS. MANPOWER RESEARCH
ORGANIZATION SAYS COMPANIES' PLANS TO INCREASE LABOR FORCE
HAVE BEEN CUT BACK DRASTICALLY. 23 PERCENT OF THE 3,300

FIRMS POLLED EXPECT NOW TO RECRUIT MORE LABOR; 3 MONTHS AGO THE FIGURE WAS 30 PERCENT OF THESE FIRMS. THE MAJOR REASONS GIVEN ARE UNCERTAINTY OVER THE ECONOMIC FUTURE, INFLATION, INDUSTRIAL RELATIONS, AND THE CASH-FLOW PROBLEMS.

8. REVISED FIGURES FOR RETAIL SALES INCREASE IN AUGUST OVER JULY SHOW THAT SALES ROSE 1.8 PERCENT, NOT 2.3 PERCENT AS PREVIOUSLY ANNOUNCED. THE AUGUST INDEX IS 111.5 RATHER THAN 112.0 (1971 EQUALS 100) UP FROM 109.5 IN JULY. THUS, THE RETAIL SALES LEVEL REMAINS BELOW THAT OF OCTO-
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BER 1973. A FINANCIAL TIMES SURVEY OF CONSUMER CONFIDENCE SHOWED IT AT ITS LOWEST LEVEL SINCE 1970.

9. FIXED CAPITAL EXPENDITURE (S.A.) FELL FROM THE FIRST TO THE SECOND QUARTER OF 1974 AND REMAINS BELOW ITS THIRD QUARTER 1973 LEVEL. IN MANUFACTURING INDUSTRIES, FIXED CAPITAL EXPENDITURE (S.A.) ROSE BY 1 PERCENT BETWEEN THE FIRST AND SECOND QUARTERS; IT ROSE BY 6-1/2 PERCENT BETWEEN MID-1973 AND MID-1974. A LEVELING OFF OF THE GROWTH TREND IS APPARENT. FIXED CAPITAL EXPENDITURE IN DISTRIBUTIVE AND SERVICE INDUSTRIES FELL BY ABOUT 4-1/2 PERCENT FROM THE FIRST TO THE SECOND QUARTER THIS YEAR AND BY ABOUT 6 PERCENT FROM MID-1973 (S.A.) TO MID-1974.

10. MORE EVIDENCE OF THE COMPANY LIQUIDITY SQUEEZE APPEARED IN PRELIMINARY FIGURES FOR BUSINESS PROFITS IN SEPTEMBER. PRE-TAX PROFITS ROSE BY 11.6 PERCENT, THE SMALLEST SUCH INCREASE SINCE APRIL 1973. THE RATE OF INCREASE IN COMPANY PROFITS HAS FALLEN STEADILY SINCE MAY OF THIS YEAR. DIVIDEND PAYMENTS WERE ALSO SHARPLY CURTAILED IN SEPTEMBER.

11. FINANCE HOUSES, WHICH SERVE MAINLY TO FINANCE INSTALLMENT CREDIT FOR INDUSTRY, HAVE CUT THEIR BASE RATE FROM 13-1/2 TO 12-1/2 PERCENT. THIS REFLECTS THE EASING TRENDS IN SHORT TERM MONEY RATES IN THE U.K.

12. THE FORWARD DISCOUNT CLOSELY MAINTAINED THE SPREAD WITNESSED LAST WEEK, REFLECTING THE STABILITY OF THE POUND DURING THE WEEK.

	9/26	10/3	CHANGE
1 MONTH	0.45	0.45	UNCHANGED
3 MONTHS	1.75	1.80	UP 0.05
6 MONTHS	3.75	3.85	UP 0.10

(ALL FIGURES IN CENTS)

13. LOCAL AUTHORITY DEPOSIT RATES FELL ONLY SLIGHTLY

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INT-08 AGR-20 DRC-01 /200 W
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R 041813Z OCT 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 4518

INFO AMEMBASSY BERN

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DURING THE WEEK WHILE THE 1 PERCENT AND 2 PERCENT SPREAD BETWEEN THE ONE MONTH RATE AND THE THREE AND SIX MONTH RATES RESPECTIVELY WAS MAINTAINED.

	9/26	10/3	CHANGE
1 MONTH	11-1/8	10-15/16	DOWN 3/16
3 MONTHS	11-15/16	11-7/8	DOWN 1/16

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6 MONTHS 13 12-15/16 DOWN 1/16

14. EURODOLLAR RATES SHOWED MIXED MOVEMENT DURING THE WEEK, EXHIBITING SMALL INCREASES EARLY IN THE WEEK BUT FALLING OFF AS THE WEEK ENDED.

	9/26	10/3	CHANGE
1 MONTH	11-3/8	11-3/4	UP 3/8
3 MONTHS	12	12	UNCHANGED
6 MONTHS	12-1/8	12	DOWN 1/8

15. THE MINIMUM LENDING RATE REMAINED UNCHANGED AT 11-1/2 PERCENT ON FRIDAY, OCTOBER 4, 1974.

16. SEE ALSO LONDON A-779, "BANK OF ENGLAND QUARTERLY BULLETIN" AND LONDON A-794, "ECONOMIC PROGRESS REPORT."

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